



City of San Diego

Councilmember Carl DeMaio, District 5

Dropping the DROP

A Five-Part Package to End DROP





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What is DROP?

- Created in 1997.*
- "Deferred Retirement Option Plan."*
- Double dipping - City employees are allowed to take a full pension while continuing to collect a full city salary.*
- Spikes pensions by as much as 71%.*



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Top Ten Annual DROP Payments

Job Title	Regular Pension Payment	DROP Payment	Percent Increase from Regular Pension to DROP	Total Pension Payment
Assistant City Attorney	\$193,858	\$113,900	59%	\$307,758
Fire Chief	\$134,298	\$95,455	71%	\$229,753
Fire Battalion Chief	\$151,726	\$92,709	61%	\$244,435
Assistant Police Chief	\$157,502	\$85,445	54%	\$242,947
City Librarian	\$149,011	\$85,080	57%	\$234,091
Fire Battalion Chief	\$144,345	\$84,047	58%	\$228,392
Fire Battalion Chief	\$136,782	\$80,867	59%	\$217,649
Investment Officer	\$180,931	\$74,578	41%	\$255,509
Asst. Water Dept. Dir.	\$142,539	\$71,468	50%	\$214,007
Fire Captain	\$108,498	\$70,008	65%	\$178,506

The top 10 DROP payments alone total over **\$850,000** per year, increasing each retiree's pension by an average of 58%.



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Top Ten DROP Account Balances

	Status	Amount
1	Retired DROP	\$1,041,746
2	Retired DROP	\$974,917
3	Retired DROP	\$886,267
4	Active DROP	\$853,254
5	Retired DROP	\$852,707
6	Retired DROP	\$851,451
7	Retired DROP	\$820,220
8	Retired DROP	\$795,585
9	Retired DROP	\$789,227
10	Retired DROP	\$779,480



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The Cost of DROP

- Retirees collecting DROP = 980 and growing*
- City employees currently enrolled in the program = 1,200 and growing*
- City employees eligible for the program = ~5,600*
- DROP Liabilities = \$424 million*
- Interest paid in DROP in FY11 = \$24.4 million*
- Buck Actuarial Study identified total cost of program: \$149 million – \$182 million.*



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Carl DeMaio's Five Reforms

- 1 – Eliminate the DROP Guaranteed Interest Rate (Immediately)*
- 2 – Increase Contribution Rates for DROP Participants to Maximum Allowed (Labor contract)*
- 3 – Reduce DROP Participant Salaries by Exact Amount of Pension Payout Provided (Labor contract)*
- 4 – Measure & Report DROP Reforms (Immediately)*
- 5 – File for Declaratory Relief to Eliminate the Program (Immediately)*



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Legal Support for DeMaio's Reforms

"The City could either adjust salaries so that DROP participants receive the same net salaries they would have received as a non DROP participant or require their normal retirement contribution levels."

*"The Ninth Circuit Court of Appeals held that employees have **no vested contractual rights to a certain salary** while participating in DROP."*

"There are 'reopener' provisions in the present agreements with the City's recognized employee organizations, relating to negotiations on 'the impacts, if any, that result from the City's defining DROP's cost neutrality.' These reopeners may be sufficient to allow the City to negotiate a decrease in salaries for DROP participants."

*San Diego City Attorney Jan Goldsmith, Memorandum of Law
re: DROP Cost-Neutrality, March 7, 2011.*



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Questions?

